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Does the spin-off policy change the Shariah bank financial ratio?

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Abstract

This study aims to look for differences in financial ratios which include Capital Adequacy Ratio (CAR), Non Performing Finance (NPF), and Financing to Deposits Ratio (FDR) between before and after spin-off on Islamic banks in Indonesia. This study was a quantitative one. The data in this study were taken from 4 Shariah-based banks in Indonesia. The results of the statistical analysis of changes in the CAR, NPF, and FDR are more than 0.05, so the results are not significant. In conclusion, spin-off does not affect the decline in the performance of the financial performance of Islamic banks in Indonesia.

Keywords: Bank shariah, Capital adequacy ratio.

¿La política derivada cambia la relación financiera del banco Shariah?

Resumen

Este estudio tiene como objetivo buscar diferencias en los índices financieros que incluyen el índice de adecuación del capital (CAR), el financiamiento no rentable (NPF) y el índice de financiación a depósitos (FDR) entre antes y después de la escisión de los bancos islámicos en Indonesia. Este estudio fue del tipo cuantitativo. Los

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datos de este estudio fueron tomados de 4 bancos con sede en Shariah en Indonesia. Los resultados del análisis estadístico de los cambios en el CAR, NPF y FDR son más de 0.05, por lo que los resultados no son significativos. En conclusión, la escisión no afecta la disminución en el desempeño del desempeño financiero de los bancos islámicos en Indonesia.

Palabras clave: Banco Shariah, Ratio de adecuación del capital.

1. INTRODUCTION

Indonesia as a developing country cannot escape from economic activities, either through buying or through selling activities, investing or renting a lease to be the health of the Indonesian people. Discussions on economic development in Indonesia, aside from direct transaction activities in the community, also come from financial institutions including the Bank.

In its development, several conventional banks in Indonesia formed Shariah-based financial institutions or Islamic banks. So that, there are two types of banks, namely conventional banks and Islamic banks in Indonesia. In Law number 21 of 2008, it is explained that Conventional Banks are banks with conventional business activities. Based on the type consisting of Conventional Commercial Banks and People's Credit Banks. The Shariah Bank is everything that concerns the Shariah Bank and Shariah Business Unit. It includes institutions, business activities and ways and processes in carrying out their activities.

Since its first appearance in Indonesia in 2006, Islamic banks have experienced growth, although some researchers have shown that conventional banks are more efficient than Islamic banks. Many developed and developing countries have built Islamic banks. Even though the majority of Islamic Banks were established in Middle Eastern countries, many banks in developed countries have begun to value demand for Islamic financial products. Along with the development of Islamic banks, the government allows Conventional Banks to have UUS. In 2008 to 2009 a law was issued in a row about Islamic banks. The law is an emphasis where the obligation of spin-offs must be carried out by Islamic banks in Indonesia.

This separation can take different forms, but generally requires important changes in control, risk, and profit distribution. Other elements are technology transfer and ownership rights from the parent to the new owner. BEESON & HYDEN (2002) mentioned that spin-off companies separate their units or business divisions into subsidiaries. The company then shares the proceeds of the subsidiaries with their shareholders on a pro-rata basis. BREALEY, MYERS, ALLEN & MOHANTY (2012) also stated that the company's shares from the new company are distributed to the shareholders of the parent company.

Based on regulations in Indonesia, the spinoff is carried out no later than 15 years after the enactment of the Act. Besides, spin-offs must also be carried out if the asset value of UUS has reached 50% of the total value of assets of the Conventional Commercial Bank that is the parent. This regulation is useful for developing Islamic Banks to carry out separation or spin-offs. The spin-off policy became the background for several Islamic banks to conduct spin-offs. This shows that the spin-off policy carried out by the government to accelerate the growth of Islamic banks in Indonesia is the right policy (AL ARIF, 2014). It is seen that the Spin-off policy can increase the growth of third party funds in the Islamic bank industry in Indonesia (AL ARIF, 2014).

Besides, the spin-off is not just a policy, but also able to provide many benefits. HERZECA (1996) argued that spin-off has succeeded in facilitating the achievement of the strategy by allowing it to focus on core business. Another reason required for this separation is to help a Shariah Business Unit to expand its product development. Thus, when it becomes a Shariah Commercial Bank, the acceptance of a Bank will be broader and more diverse.

However, before entering into separation, the bank must make some preparations, so that when they have separated they will not experience problems. On this basis, a performance assessment is needed to see the effect of separation on bank performance. The use of financial ratios is still used today because it is the most common and easy method, so it is widely used in measuring the performance of a bank. Through this ratio can also be found a comparison between one component with other components. With the results presented by the ratio, analysts will find it easier to see the situation and its development through the comparison between periods and with other banks. There are several financial ratios. 3 of them are Capital Adequacy Ratio (CAR), Non Performing Financing (NPF) and Financing To Deposit Ratio (FDR).

Several previous studies related to differences have been made. NASUHA (2012) analyzed the Impact of Spin-Off Policy on Islamic Bank Performance. Besides, NUZULIAH (2014) analyzed the Financial Performance of Islamic Banks Before and After Spin-Off. Some studies NASUHA (2012) & NUZULIAH (2014) showed that financial ratios before and after the spin-off show differences. Besides, the spin-off policy has had a positive influence on Islamic banks (AL ARIF, 2014). Therefore, we assume that there is a change in the value of the Capital Ratio of Asset Quality Ratios and Liquidity Ratios before and after Spin-offs in Shariah-based Banks in Indonesia.

In the past few years, there have been developments in financial ratios in Islamic Commercial Banks (BUS) and Shariah Business Units (UUS). In a combination of UUS and BUS financial ratios are fluctuating or experiencing ups and downs. However, this needs to be examined again to see the effect of the spin-off on all three financial ratios. Therefore, in this study, we focused on changing the value of Capital Adequacy Ratio (CAR), Non Performing Financing (NPF) and Financing to Deposit Ratio (FDR) before and after spin-offs in Shariah-based banks in Indonesia.

This research is important because it provides an overview of the differences in financial ratios before and after the spin-off. Is there a significant difference between the Capital Adequacy Ratio (CAR), Non Performing Financing (NPF) and Financing To Deposit Ratio (FDR) before and after the spin-off in Islamic banks in Indonesia before and after the spinoff?. The purpose of this study is to look at the differences in Capital Ratios, Asset Quality Ratios, and Liquidity Ratios between before and after Spin-off on Shariah-based Banks in Indonesia (AL ARIF, 2018).

2. METHODOLOGY

This study used a quantitative approach. The population in this study was all Shariah Commercial Banks originating from Shariah Business Units which were registered at Bank Indonesia during the study period. Besides, the bank is a bank that conducts the process of separating or spinning off Shariah Business Units at Conventional Banks namely BRI Shariah Bank, Bank Shariah Bukopin, Bank BNI Shariah, BJB Shariah Bank and the latest is BTPN Shariah.

To determine the sample, we used a purposive sampling method with certain considerations, namely having a complete Annual Financial Report 3 years before Spinoff and having an Annual Financial Report after Spinoff for 3 years since becoming a Shariah Commercial Bank. From these criteria, several Shariah Banks were obtained, namely BRI Shariah Bank, BNI Shariah, Bank Shariah Bukopin and BTPN Shariah as objects in this study.

The data used was the financial data of the Shariah Business Unit and Islamic Commercial Banks. The data is obtained from the financial statements of the Shariah Business Unit and Shariah Commercial Banks that conduct Spin-offs. The data used is 3 years of data when it is still a Shariah Business Unit and 3 years after the Spin-off. Panel data is a combination of cross-section and time series

This study used variables related to financial performance, namely Capital Adequacy Ratio (CAR), Non Performing Finance (NPF), and Financing to Deposit Ratio (FDR). CAR is used to measure the adequacy of bank capital in overcoming losses and meeting the minimum capital requirements. The data used are data ratios taken from annual financial reports, which are 3 years before the spinoff and 3 years in the beginning after the spin-off. Non Performing Financing (NPF), which is analogous to Non-Performing Loans (NPL) in conventional banks, is a comparison between the total problematic financing and the total financing provided to debtors in Shariah commercial banks and Shariah business units. Financing to Deposit Ratio is a comparison between the financing provided by banks and third-party funds collected by Shariah commercial banks and business units.

3. RESULT

The period used for taking CAR data at BNI Shariah bank occurred before the 2007 spin-off until 2009 and after the spin-off from 2010 to 2012. Whereas BRI Shariah banks occurred before the 2006 spin-off until 2008 and after the spin-off from 2009 to 2011 At Bank Bukopin Shariah occurred before the 2006 spin-off until 2008 and after the spin-off from 2009 to 2011. And for Shariah BTPN banks occurred before the 2011 Spin-off until 2013 and after the 2014-2016 spin-offs.

Based on Bank Indonesia's letter No. 14/37 / DPNP which states that the provision of minimum capital is 8%. Therefore, the overall CAR ratio of Shariah Commercial Banks before and after the spinoff can be said to meet the requirements set by Bank Indonesia (see table 1). Table 1 explains that for three years, Islamic banks experienced a change in the CAR ratio from before and after the Spin-off. At BNI banks from 2007 to 2009, CAR ratios before and after the spin-offs were 20.91, 9.40 and 28.80 before the spin-off. Whereas after the spin-offs, namely from 2010 to 2012 were 27.68, 20.67, and 14.22.

In BRI Shariah banks, car ratio calculations began in 2006 to 2008 before the Spin-off with results of 18.82, 16.66, and 45.45. While in 2009 to 2011 or after the spin-offs were 17.04, 20.62 and 14.74. Similar to the BRI Shariah bank, the calculation of the CAR ratio at Bukopin Shariah bank began in 2006 to 2008, with results of 15.79, 12.84, and 37.19. As for the BTPN Shariah bank, the calculation of the CAR ratio before the Spin-off began in 2011 to 2013. The calculation results were 20.47, 21.49 and 58.67. Meanwhile, after the spin-off, the calculation began in 2014 to 2016 with results of 33.88, 19.93, and 23.80.

Table 1: Descriptive Statistics of CAR, NPF, and FDR of Islamic Commercial Banks Before and After Spin-off

BANK	CAR		NPF		FDR	
	Before	After	Before	After	Before	After
	Spin-off		Spin-off		Spin-off	
BNI Shariah	20,91	27,68	3.79	3.59	100.10	68.93
	9,40	20,67	2.59	3.62	102.96	78.60

	28,80	14,22	2.35	2.02	78.25	84.99
BRI Shariah	18,82	17,04	2.29	3.20	291.90	120.98
	16,66	20,62	6.76	3.19	151.17	95.82
	45,45	14,74	7.0	2.77	184.37	90.55
BTPN Shariah	20,47	33,88	0.04	1.29	73.5	93.97
	21,49	19,93	0.50	1.25	83.04	96.54
	58,67	23,80	2.94	1.53	148.87	92.75
Bukopin Shariah	15,79	13,06	1.49	3.25	92.58	100.62
	12.84	11.51	2.44	3.80	106.90	99.37
	37.19	15.29	2.27	1.74	84.96	83.66
Mean	25,54%	19,37%	2,87%	2,60%	124,9%	92,2%
Maximum	58.67	11.51	7.00	3.80	291.90	120.98
Minimum	9.40	33.88	0,04	1.25	73,50	68,93

In table 1 it can be seen that the lowest value of the CAR ratio of Islamic banks before and after the spin-off is 9.40%. This lowest CAR ratio is owned by the Bank BNI Shariah Business Unit in 2008. The highest ratio is 58.67% owned by the performance of the BTPN Shariah Business Unit. These results indicate that all banks that make good spin-offs before and after fulfilling the minimum capital provision obligations. Thus, it can be concluded that overall, the capital aspect represented by the CAR ratio as UUS is higher than when it became a BUS. However, it is necessary to pay close attention to the lowest and highest values that are on the UUS side which shows that the capital used by UUS is fluctuating while in the GENERAL Bank Shariah is relatively more stable.

In addition to the CAR ratio, table 1 also shows the results of calculating the ratio of NPF. We took the calculation of the NPF ratio in the same year with the calculation of the CAR ratio, both before and after the spin-off for each bank. NPF at BNI Shariah banks before the spin-offs from 2007 to 2009 was 3.79, 2.59, and 2.35. While the NPF after the spin-off from 2010 to 2012 was 3.59, 3.62, and 2.02. At BRI Shariah banks from 2006 to 2008 or before Spin-off, the NPF ratio was 2.29, 6.76, and 7.0. Meanwhile, the NPF ratio after the spin-off from 2009 to 2011 was 3.20, 3.19, and 2.77.

At Bank Bukopin Shariah the calculation of the NPF ratio before Spinoff was from 2006 to 2008. The value of Bukopin Shariah's NPF Ratio in tables 1 was 1.49, 2.44, and 2.27. While the NPF results after the spin-offs are 3.25, 3.80, and 1.74. At the BTPN Shariah bank, the NPF ratio before the spinoff is 0.04, 0.50, and 2.94. The NPF ratio after the spinoff is 1.29, 1.25 and 1.53. Besides, from table 1 we can understand that the lowest value of NPF is the Shariah BTPN UUS in 2011 with a value of 0.04, while the highest value of NPF is UUS BRI Shariah in 2008 with a value of 7.0. For NPF BUS the lowest value is 1.25% while the highest value is 3.80%. From the table above it can be concluded that the asset quality of the entire sample when becoming a BUS is better than the asset quality of the entire sample while still in UUS status.

Next is the liquidity ratio. calculation of the liquidity ratio is obtained from annual financial reports where the FDR ratio is the reference. The FDR ratio at BNI Shariah banks before the spin-off from 2007 to 2009 was 100.10, 102.96, and 78.25. The FDR ratio of BNI Shariah banks after the spinoff was 68.93, 78.60, and 84.99. At BRI Shariah banks the FDR ratio from 2006 to 2008 or before the Spin-offs was 291.90, 151.17, and 184.37. While the FDR ratio after the spin-offs from 2009 to 2011 was 120.98, 95.82 and 90.55. Besides, table 1 shows the calculation of Bank Bukopin Shariah's FDR ratio before the spin-offs from 2006 to 2008 were 92.58, 106.90, and 84.96. While the FDR ratio after the spin-offs from 2009 to 2011 was 100.62, 99.37 and 83.66. At Shariah BTPN banks, the FDR ratio before the 2011 to 2013 spin-offs was 73.5, 83.04, and 148.87, while after the 2014 Spin-to-2016 spin-off, the FDR ratio was 93.97, 96.54, and 92.75.

Besides, in table 1 shows that the highest FDR was owned by UUS BRI Shariah in 2006 with a value of 291.90%, while the lowest FDR was BUS BNI Shariah in 2010 with a value of 68.93%. This shows that in terms of liquidity UUS is better at paying withdrawal obligations if there are funds withdrawn at any time compared to Shariah Commercial Banks. However, with too many assets buried, the funds were not channeled properly. The higher the LDR ratio indicates the more risky the condition of bank liquidity, conversely if too low the LDR shows the lack of effectiveness of banks in channeling loans.

4. DATA ANALYSIS

Two ratios have successfully passed the normality test and one data that is not normal is found in FDR before the Spin-off, whereas in other results that show normally distributed data, among others, for CAR ratios before and after Spin-off, NPF before and after Spin-off and FDR only after the spin-off. Therefore, to compare the CAR and NPF ratios will be used paired t-test, while to test the FDR ratio, the Wolcoxon sign rank test will be used. Data that is not normally distributed is because the value of the FDR ratio is less than 5%, which is 0.004, while other ratios have a value of more than 0.05.

Table 2: Different test results of CAR, NPF, and FDR before and after the spin-off

Variable	**Sig**
CAR before – afterSpin-off	0,206
NPF before – afterSpin-off	0,641
FDR before – afterSpin-off	0,084

The capital aspect is represented by the Capital Adequacy Ratio has a significant level of 0.206 or 20.6% (see table 2). These results indicate a significant level of more than 0.05 (p> 0.05). This means that the capital ratio represented by capital adequacy does not have a significant change between before the spin-off and after the spin-off. Although in writing the CAR value ratio has a difference (see table 1), but after a paired t-test, it shows that the change does not have a significant difference.

On the analysis of the quality aspects of assets owned or NPF has a significant level of 0.641 or 64.1%. These results indicate a significant level of more than 0.05 (p> 0.05). In other words, the asset quality ratio or NPF on Islamic banks does not have a significant change between before and after the spin-off. Although in table 1 there are differences in NPF ratios, the results of the paired t-test show that these changes do not have a significant difference.

Different from testing CAR and NPF ratios, the FDR ratio in this study was carried out by the Wilcoxon signed-rank test. This is done because the data obtained is not normally distributed. On the liquidity aspect, the Wilcoxon signed-rank test results showed a significant level of 0.084 or 8.4%. in other words, the significance level is more than 0.05 ($p > 0.05$). The liquidity ratio represented by the FDR ratio does not have a significant change. Even if you look at table 1, the value of the FDR ratio has a difference, but after the Wolcoxon sign rank test, the test does not have a significant difference.

5. DISCUSSION

Our findings indicate that there were no differences in CAR ratios in Commercial Banks before and after Spin-off. This is evidenced by the significant level of the three ratios, which is more than 0.05. For CAR, FDR, ROA and ROE variables do not show differences in Shariah banks (NASUHA, 2012). There is no difference only in the capital ratio, CAR (HISYAM & SEPTIARINI, 2017).

The results also showed that there were no significant differences in the ratio of NPF before and after the spin-off. However, our findings are somewhat contradictory to some researchers. NPF shows the difference between before and after Spin-off policies (NASUHA, 2012). There was a difference in the quality of assets represented by NPF (HISYAM & SEPTIARINI, 2017). The difference could be influenced by several factors. One of them is the year of calculation and period of study at each ratio in each study.

Our findings also indicate that there was no difference in the FDR ratio between before and after the Spin-off. A decrease in the FDR ratio between before and after the spin-off (NUZULIAH, 2014). There were no significant differences in CAR, NPF, and FDR on Islamic banks between before and after the spin-off due to the initial year after separation, the capital used was more for working capital than for financing. at BNI bank this is because funds are allocated to working capital and investment. In addition, to keep it in line with Bank Indonesia's provisions regarding a minimum CAR value of 8% (CHOTIB & UTAMI, 2014). Besides, the spin-off is still practiced in the Islamic bank industry, so the testing period is still relatively short (NASUHA, 2012).

The results showed that there was no difference in the value of CAR financial ratios. NFP, and FDR before and after the spin-off. The absence of differences in the financial ratios before and according to spin-offs could occur because in the first year after the separation of capital was used more for working capital, not for financing. Besides, the absence of significant differences did not mean that the banks had no development. The absence of these differences means that after a spin-off of a Shariah Bank there is no need to worry about a significant decrease in the performance of financial performance. The absence, the difference also showed that spin-offs had hopes of developing, even though the capital structure had escaped from the parent bank but did not affect its performance.

The Spin-off policy can provide benefits to the bank. One of them is becoming a business opportunity to develop the banking industry. Through Spin-offs, a business unit that has limitations in doing business will have wider opportunities. Besides, Shariah Commercial Banks have products that are more extensive and diverse than Shariah Business Units. Besides that, Spin-off means over-reorganizing the organization. In other words, streamlining back a business organization where there are excess members. In this case, Conventional Commercial Banks can do Spin-offs to streamline their employees back without having to terminate employment.

The spin-off also became one of several efforts to restructure the company. In other words, the activity can change or enlarge the company's structure. Not only to reduce the number of workers, but separation activities will also help a Bank to improve the quality of the workers they have. Expectations are generated from the separation so that the company can focus more on its employees.

6. CONCLUSION

Based on this research, it can be concluded that in Islamic banks in Indonesia, there are no significant differences in financial ratios, which include Capital Adequacy Ratio (CAR), Non Performing Finance (NPF), and Financing to Deposit Ratio (FDR) between before and after doing Spin-off. It showed that after the spin-off of Islamic banks there was no need to worry about a significant decrease in the performance of financial performance. Besides, this also showed that after spin-off Islamic banks had hoped of developing. However, before making a spin-off, Islamic banks must choose the right strategy so as not to decline after the separation from the parent bank.

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